

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

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FM AMEMBASSY LISBON

TO SECSTATE WASHDC PRIORITY 9412

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY HELSINKI

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY MADRID

AMCONSUL OPORTO

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AMEMBASSY PARIS

USMISSION OECD PARIS

AMCONSUL PONTA DELGADA

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

USMISSION NATO

AMEMBASSY VIENNA

C O N F I D E N T I A L SECTION 1 OF 2 LISBON 8372

DEPT PASS COMMERCE AND TREASURY

E.O. 11652: GDS

TAGS: PFOR, ECON, ELAB, PO

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SUBJECT: CONVERSATION BETWEEN SECRETARY RICHARDSON

AND GOP FINANCE MINISTER MEDINA CARREIRA

SUMMARY: GOP FINANCE MINISTER MEDINA CARREIRA TOLD SECRETARY RICHARDSON THE GOP WELCOMED FOREIGN INVESTMENT. TO STIMULATE SUCH INVESTMENT IT INTENDED TO DEFINE MORE CLEARLY THE LIMIT OF PUBLIC SECTOR ACTIVITY AND RESTORE EQUILIBRIUM IN LABOR-MANAGEMENT RELATIONS. POLITICAL CONTROL IN PORTUGAL, HE SAID, DEPENDS ON ECONOMIC RECOVERY, AND THIS IN LARGE PART DEPENDS ON FOREIGN SUPPORT, ALTHOUGH THE PRINCIPAL RESPONSIBILITY RESTS WITH THE PORTUGUESE. FAILURE TO PUT THE ECONOMIC MACHINE BACK TO WORK, MEDINA CARREIRA SAID, WILL FRAGMENT THE MASS SUPPORT FOR MODERATE POLITICAL FORCES TO THE ADVANTAGE OF THE TIGHTLY ORGANIZED PORTUGUESE COMMUNIST PARTY. DISCUSSING A POSSIBLE CONSORTIUM LOAN MEDINA CARREIRA ACKNOWLEDGED THE NEED FOR CERTAIN ECONOMIC CONDITIONS, BUT FELT THAT CONDITIONS THAT COULD BE EXPLOITED BY THE LEFT AS UNDERMINING "NATIONAL INDEPENDENCE" (A PHRASE HE WAS SICK OF HEARING) WOULD INEVITABLY BE PREJUDICIAL TO INTERNAL STABILITY AND GOOD RELATIONS BETWEEN THE COUNTRIES CONCERNED. HE EMPHASIZED THE IMPORTANCE FOR PORTUGAL'S FUTURE OF UNDERSTANDING ON THE PART OF THE USG AND FLEXIBILITY IN DEALING WITH POLITICALLY SENSITIVE QUESTIONS. END SUMMARY.

1. SECRETARY RICHARDSON, ACCOMPANIED BY DEPUTY ASSISTANT SECRETARY KATZ AND AMBASSADOR, MET WITH GOP FINANCE MINISTER MEDINA CARREIRA FOR OVER AN HOUR DECEMBER 3. FOLLOWING INITIAL EXCHANGE OF COURTESIES SECRETARY RICHARDSON ASKED MEDINA CARREIRA FOR AN OVERVIEW OF THE ECONOMIC SITUATION WITH PARTICULAR REFERENCE TO ISSUES OF INTEREST TO POTENTIAL FOREIGN INVESTORS.

2. FOREIGN INVESTMENT: IN DISCUSSING FOREIGN INVESTMENT FINANCE MINISTER MEDINA CARREIRA IMMEDIATELY ACKNOWLEDGED THE PROBLEM CREATED BY A LACK OF CLEAR DEFINITION OF AREAS IN WHICH THE PRIVATE SECTOR CAN OPERATE. THERE WOULD BE NO MORE NATIONALIZATIONS, HE SAID, AND THE GOVERNMENT IS WORKING WITH THE ASSEMBLY TO DEVELOP A LAW

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WHICH WOULD SPECIFY THE LIMITS OF PUBLIC SECTOR ACTIVITIES. ALL ELSE WOULD BE OPEN TO THE PRIVATE SECTOR. THIS, COUPLED WITH THE IMPLEMENTATION OF THE FOREIGN INVESTMENT CODE, SHOULD GIVE FOREIGN INVESTORS THE NECESSARY GUARANTEES. THE GOP WELCOMES ALL FOREIGN INVESTMENT, BUT IT OBVIOUSLY WOULD GIVE PREFERENCE TO FOREIGN INVESTMENT THAT BRINGS WITH IT IMPROVED TECHNOLOGY. THE GOP WAS LESS INTERESTED IN THE TYPE OF

INVESTMENT THAT HAD COME IN THE PAST SIMPLY TO EXPLOIT  
LOW-COST LABOR.

3. LABOR UNREST: MEDINA CARREIRA RECOGNIZED WITHOUT  
ANY PROMPTING THAT THE PRINCIPAL ISSUE IN THE MINDS OF  
FOREIGN INVESTORS WAS LABOR AGITATION. THE PAST TWO YEARS  
HAVE BEEN CHARACTERIZED BY INDISCIPLINE, LACK OF PRODUCTIVITY  
AND THE DESTRUCTION OF HIERARCHICAL RELATIONS. THE  
GOVERNMENT IS WORKING ON A SERIES OF MEASURES DESIGNED TO  
RE-ESTABLISH "EQUILIBRIUM" IN WORKER-MANAGEMENT  
RELATIONS.

4. OPEN ECONOMY. MEDINA CARREIRA APOLOGIZED FOR THE  
IMPORT CONTROL MEASURES RECENTLY ADOPTED BY THE GOP,  
TERMING THEM A TEMPORARY EMBARRASSMENT. HE EMPHASIZED  
THAT GOP POLICY FAVORED AN OPEN ECONOMY AND FREE INTER-  
NATIONAL TRADE, AND THAT PORTUGAL INTENDED TO ABIDE BY  
THE RULES OF SUCH TRADE AS SOON AS IT WAS FINANCIALLY ABLE.

5. LOAN CONDITIONS AND NATIONAL INDEPENDENCE.  
SECRETARY RICHARDSON REFERRED TO THE LOAN CONSORTIUM PRE-  
SENTLY BEING DISCUSSED WITH THE GOP AND ASKED IF SUCH A  
CONSORTIUM COULD NOT BE HELPFUL TO THE GOP BY INDICATING  
AS CONDITIONS CERTAIN AREAS THAT BOTH PARTIES AGREED  
NEED TO BE ADDRESSED. MEDINA CARREIRA RESPONDED BY  
EMPHASIZING THE POLITICAL TURMOIL OF THE PAST THIRTY  
MONTHS. THROUGHOUT EXTREMISTS HAD CONSISTENTLY EX-  
PLOITED THE ISSUE OF "NATIONAL INDEPENDENCE." AMBASSADOR  
CARLUCCI, HE SAID, IS PROBABLY "FED UP" WITH HEARING ABOUT  
NATIONAL INDEPENDENCE. "I AM TOO," HE CONFESSED. "IN  
THE TWENTIETH CENTURY THERE IS NO NATIONAL INDEPENDENCE.  
EVEN THE LARGE POWERS ARE DEPENDENT UPON EACH OTHER."  
NEVERTHELESS, WHETHER REALISTIC OR NOT, THE ISSUE IS  
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EXPLOITED TO CREATE A CLIMATE WHICH INEVITABLY AFFECTS  
ANY DEALINGS WITH FOREIGN GOVERNMENTS. THERE ARE FORCES  
READY TO SEIZE UPON ANY DETAIL TO CLAIM NATIONAL SOVEREIGNTY  
IS BEING UNDERMINED.

6. IT IS NO USE, THE FINANCE MINISTER SAID, TO ARGUE  
WHETHER THIS IS GOOD OR BAD. IT IS A FACT WITH WHICH  
THE GOVERNMENT MUST DEAL. ALL NEGOTIATIONS WITH OTHER  
COUNTRIES MUST TAKE THIS INTO ACCOUNT. IF AGREEMENTS  
ARE CONCLUDED WITHOUT CONSIDERING THIS REALITY THEY CAN  
BE PREJUDICIAL BOTH TO INTERNAL STABILITY AND TO GOOD  
RELATIONS BETWEEN THE COUNTRIES CONCERNED. MEDINA  
CARREIRA ACKNOWLEDGED THAT ANY LENDER WOULD OBVIOUSLY  
HAVE TO HAVE CERTAIN CONDITIONS TO ENSURE THAT HE WOULD  
BE REIMBURSED. HOWEVER, HE SAID THAT THE WAY IN WHICH

THESE CONDITIONS WERE NEGOTATED WAS OF GREAT IMPORTANCE.  
BOTH SIDES HAVE TO BE "CAREFUL, FLEXIBLE, AND UNDERSTANDING."

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FM AMEMBASSY LISBON

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C O N F I D E N T I A L SECTION 2 OF 2 LISBON 8372

DEPT PASS COMMERCE AND TREASURY

7. INFLATION. IN RESPONSE TO A QUESTION FROM SECRETARY RICHARDSON, MEDINA CARREIRA SAID THAT GOVERNMENT CONFIDENTIAL

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PLANS PROJECT A 15 TO 18 PERCENT INFLATION RATE NEXT YEAR. HOWEVER, LIKE ALL ECONOMETRIC MODELS THIS ONE DID NOT TAKE INTO ACCOUNT PSYCHOLOGICAL FACTORS WHICH MIGHT LEAD TO HIGHER DEMAND. IN DEALING WITH INFLATION THE GOVERNMENT INTENDS TO LIMIT PRICE INCREASES IN THE PUBLIC SECTOR TO 15 PERCENT. IT WAS ALSO GETTING A TIGHTER GRIP ON PUBLIC FINANCES IN GENERAL. PREVIOUSLY GOVERNMENT AGENCIES EXPENDED FUNDS ALMOST AT WILL. NOW THERE ARE BUDGET CONTROLS AND THE GOVERNMENT WILL BE UNABLE IN 1977 TO OVERSPEND ITS BUDGET WITHOUT OBTAINING AUTHORIZATION FROM THE ASSEMBLY. THE PUBLIC SECTOR OPERATING DEFICIT BETWEEN 1976 AND 1977 HAS BEEN CUT FROM 40 MILLION CONTOS TO 19 MILLION CONTOS IN NOMINAL TERMS. THE CENTRAL GOVERNMENT DEFICIT IN NOMINAL TERMS WILL BE HELD TO THE 1976 LEVEL. IN ADDITION RECEIPTS WOULD BE HIGHER IN 1977 THAN 1976 AS A RESULT OF (A) AN INCREASE IN TAXES AND (B) IMPROVED COLLECTION. THE GOP WAS ALSO TAKING STEPS TO OBTAIN THE MAXIMUM AMOUNT OF PRIVATE SAVINGS IN FINANCING THE DEFICIT.

8. THE IMPORTANCE OF ECONOMIC RECOVERY. SECRETARY RICHARDSON TOLD THE FINANCE MINISTER HE THOUGHT EVENTS WERE MOVING IN THE RIGHT DIRECTION IN PORTUGAL. ONE HAD THE IMPRESSION, HE SAID, THAT PORTUGAL'S DIFFICULTIES WOULD YIELD IN FRONT OF A BALANCED, POLITICALLY ASTUTE AND SOUND ECONOMIC APPROACH. MEDINA CARREIRA REPLIED THAT THE GOP FELT IT WAS NOW ON THE UP SIDE OF THE CURVE. A SUCCESSFUL RESOLUTION OF PORTUGAL'S PROBLEMS IS IMPORTANT FOR EUROPE AND THE WORLD. A STRONG COMMUNIST MINORITY STILL EXISTED, AND THE SITUATION COULD DETERIORATE RAPIDLY IF THE GOP DID NOT SUCCEED IN "PUTTING THE ECONOMIC MACHINE BACK TO WORK." SPEAKING PERSONALLY, MEDINA CARREIRA SAID HE WAS CONVINCED THAT POLITICAL CONTROL IN PORTUGAL DEPENDED ON ECONOMIC RECOVERY. ECONOMIC RECOVERY DEPENDED PRINCIPALLY ON THE PORTUGUESE, BUT IT ALSO DEPENDED IN GOOD PART ON UNDERSTANDING, HELP AND FLEXIBILITY FROM FRIENDLY COUNTRIES, PARTICULARLY THE U.S. HE UNDERScoreD AT SEVERAL POINTS IN THE CONVERSATION THAT MUCH OF PORTUGAL'S FUTURE HINGES ON THE UNDERSTANDING AND FLEXIBILITY IT RECEIVES FROM THE USG.

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9. PCP POTENTIAL. MEDINA CARREIRA EMPHASIZED THAT THE PCP HAS INFILTRATED KEY AREAS IN THE GOVERNMENT, BUSINESS AND MILITARY. THE PCP IS NOT LARGE IN TERMS OF NUMBERS, BUT ITS ORGANIZATIONAL CAPACITY IS IMPORTANT. CONTINUED DEMOCRATIC EVOLUTION IN PORTUGAL IS ONLY POSSIBLE IF THE PCP'S DYNAMISM IS BALANCED BY THE SUPPORT OF THE MIDDLE CLASS FOR MODERATE FORCES. THIS WAS CLEAR IN MID-1975 WHEN THE PS RALLIES WERE SUPPORTED BY THE MASSES AND RESULTED IN VASCO GONCALVES' OUSTER. IF THE ECONOMIC SITUATION DOES NOT IMPROVE, THIS MASS SUPPORT WILL FRAGMENT TO THE ADVANTAGE OF THE PCP.

10. USG SUPPORT. SECRETARY RICHARDSON IN CLOSING ASSURED THE MINISTER WE WERE AWARE OF THE IMPORTANCE OF ECONOMIC RECOVERY NOT ONLY FOR PORTUGAL BUT FOR THE CAUSE OF DEMOCRATIC GOVERNMENT IN GENERAL. THE UNITED STATES SINCERELY HOPES TO HELP.  
CARLUCCI

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## Message Attributes

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**TAGS:** PFOR, ECON, ELAB, PO  
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